Economic Development Strategies:

Examples from Europe and Australia

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Abstract

By looking at very different aspects of regional economic development theory and policy as well as geographical areas, this paper provides a foundation of economic strategies applicable to many regions. The focus is set on a flexible and holistic approach to be able to include a wide range of economic development and wellbeing indictor and to offer an alternative to the neoclassical development framework.

The European regional policy is used as an example to analyse policy in a theoretical economic development framework. The Australian example is a practical case study of a small rural shire showing the issues individual regions are facing when they are dealing with regional development on a local level.

1. Introduction

This paper looks at two different examples of regional development: a more theoretical analysis in the case of European regional policy and a practical example of rural Australia. Regardless of the differences in approach or geographical particulars, the theory combined with practical research will provide a comprehensive profile of economic and political impacts in regional economic development leading into economic strategies of regional development applicable to many regions.

By using this unorthodox combination of theory and practical research, the notion is substantiated that economic development strategies need to be, firstly, flexible enough to consider regional peculiarities and, secondly, convincing beyond the regional boundaries - if they are meant to be economic viable rather than political testimony. The analysis of European regional policy, which clearly includes a range of different funding and policy schemes as well as the integration of so many diverse regions over the past 30 years, is used as theoretical foundation for further regional economic application.

As a result, European regional policy may be universal and valid for other areas than at first sight, in the sense that for example, Australian regions are also facing obligations and opportunities in economic development engaging different decision makers, funding and government ties.

The paper includes the notion of cumulative causation and aspects of fiscal federalism to determine the range of obligations and opportunities regional entities are confronted with.

Followed by growth strategies for the Pittsworth Development Partnership – an Australian example - include identifying local projects, knowledge and endowment as well as forming linkages to provide a holistic regional approach stimulating economic development in that region.

2. Quality aspects in regional development

Despite the fact that neoclassical approaches dominate economic and regional development spheres, alternative views and schemes that are more comprehensive are available. For example, Schumacher's book “Small is beautiful” (Schumacher 1973) which was published about three decades ago; or the annually United Nation's Human Development Report (United Nations 2003) which includes an index of development using methods and indicators to illustrate economic development and wellbeing not applicable in terms of neoclassical thinking. These alternatives offer an emphasis on the empowerment of people and their ability to create and to participate in economic development in their communities rather than on solely expanding production and increasing consumption. Using the notion of co-operation and leadership in regional economic development is already part of mainstream economics. If local actors and decision markers are not satisfy with outcomes of regional development, the question needs to be raised, whether or not the neoclassical concept on selfishness and individual incentives actually leads to overall efficiency gains in markets and communities or if long-term market outcomes are counterproductive in a broader sense by focusing also on spiritual wellbeing of the community and not solely on materialistic values. Traditional competitive strategies in regional economic development are only justifying successful outcomes in some cases; many regions – in Europe and Australia - are being bypassed by measurable economic improvements leaving a broad gap between rich and poor areas as well as between opportunities and income. However, there are success stories in the neoclassical tradition, eg, Ireland in Europe, Southeast Queensland in Australia, were regional economic development happened with innovation and growth paths are pursued. Hence, the growth patterns encountered seem not to be valid for deprived regions. What kind of approaches – economic and others - are needed to build on to enhance existing regional economic development thoughts and make them more practically for stakeholders in regions?

3. European regional policy

In the early and mid nineties the EU was entering into an advance phase of integration after signing the Maastricht treaty and establishing the Single Market and European Monetary Union with the EURO. Despite the deepening (and widening) of the integration, the economic growth problems of the EU regions could not be resolved, regardless of huge financial transfers and some successes. Regional disparities sustained during that period showing an even wider gap between prosperous and less developed areas. The challenges will continue with the enlargement of the community and the integration of ten new Eastern European member states in 2004.

EU regional policy became only a significant component of the integration process in Europe when the Single Market Project (SMP) reduced institutional obstacles and provided free movement of goods, services, labour and information among the participating economies. The elimination of trade barriers was expected to be translated into the reallocation of factors, expansion of economic activities and production of efficiency gains to all member states and across the regions of the EU.

The issue of economic growth is related to the question of regional convergence and equal allocation of resources among the member states and the regions. The expected economic effects on convergence are complex and controversial. "One the one hand, the SMP should favour convergence of per capita income levels across Member States via greater mobility of goods, services, capital and labour. On the other, increased geographical specialization could lead to increased polarization between richer and poorer countries or regions." (European Economy 1996, p. 2)

The importance of EU regional policy has involved the doubling of funding as well as several reforms of its procedural framework. The growing amounts in transfers from the EU level to regions were not only necessary to reduced existing disparities but in addition to demonstrate economic and political solidarity among the member states while negotiating the national amounts of their financial contributions and their commitments. The institutions at the EU level and at the level of regions are primarily administrating those public interventions. The regions are controlling the local allocation of public goods and services financed by transfers and regional subsidies from the EU. However, the problems of uneven spatial distribution of economic activities are still evident and the demand to compensate the less-favoured regional economies of the Union persists.

Despite an increase in financial aid and transfers to the regions and the attempt to mainstream the political and administrative procedures by introducing several reforms of the Structural Funds over the year’s unmistakable signs of regional equalization in Europe failed to disclose. The reforms of the EU Structural Funds were always the result of a bargaining process and political compromise between member states. The European regions were not able to participate in accordance with their jurisdictional responsibilities and obligations in EU regional policy. The essential regulations of the two revisions in the nineties, such as concentration of activities and funds in poorer regions, flexibility as well as simplification of procedures, were not accomplished in practice to the degree they were intended. Too many heterogeneous objectives and a wide range of financial and geographical interventions contradict the transparent orientation in EU regional policy. Due to the modifications in the financial and administrative framework, there was no continuity in the political effort to support less-developed regions. Short-term programs neglect long-term economic developments. Structural problems have occurred over a substantial period of time and a long transformation process incorporating innovative measures is required to cope with under-development. The financial framework was always a major subject of critique. Not matter how much regional transfers were increased in the past they could not reduce regional disparities in the Union.

The persistence of interregional disparities in income and economic growth confirms the need for public interventions in financing and providing regional public goods. Likewise, political and economic objectives justify the ongoing efforts in regional policy regardless of the deficits and criticism on the European regional funds and the concept of EU regional policy. In the neo-classical environment, public activities are only recognized as appropriate if there are failures in the market. Assuming that regional divergence is to be treated as market failure, public and/or governmental activities are necessary to forestall dysfunctional market mechanisms and achieve economic growth as well as regional development. The economies of Europe as whole will benefit from any partial development. Regional disparities resulting from market failures have to be resolved under the auspices of governmental (preferably EU level) guidance.

Objectives of common regional policy include national and EU wide economic growth and interregional per capita income convergence, stability and quality of life throughout the territory by the provision of public goods and services to guarantee a minimum standard to all people. This principle of equality objects to the acceptance of imbalances if market forces tend to increase divergence. Economic imbalances will build up and cease into permanent social, political and economic conflict with negative effects on the economic welfare of all people. The creation of favourable growth terms is one of the major intentions of regional policy. Cooperation and coordination among jurisdictions concerning economic activities are crucial to achieved positive outcomes. However, regional policy is more often determined by political considerations rather than by economic equity and efficiency criteria.

Efficiency is defined as maximization of growth of the economy and implies an optimal allocation of resources. Equity assumes the reduction of interregional disparities. Economic efficiency is maximized when the distribution of economic activities over space is determined by market factors. In general, one has to choose between one and the other objective. Due to trade-off effects, both economic goals can hardly be achieved at the same time. Equity involves equality of opportunities and transfers of EU funds into regions where there are most needed for economic development.

The EU is using administrative criteria and policy consideration to delimit European regions in number and size. Officially, the regions are divided in three different NUTS groups. Since there is no single theoretical definition of regions, the choice of delimitation of regions depends to some extend on the objectives of regional policy and its measures or interventions. The European regions are very heterogeneous. Population, size, economic factors and backgrounds vary as well as their geographical characteristics. Despite this variety, the regions are the second player – next to the EU-level - of EU regional policy. The EU-level is in charge to set the financial framework and to determine the amount of transfers to the regions. The localized public interventions are under regional obligation. The regions are the spatial dimension of the Union characterized as level below the national member states. To characterize efficient EU regional policy in such a way leaves very little room for active participation of national body and member states. However, in the nineties and still today, the political and economic impacts of the member states in EU regional policy and funding issues are still very strong, especially when looking at the national eligibility in regional financial assistance programs and national bargaining during the process of setting up the Structural Funds.

3.1. Polarization theory in economic development

Myrdal's regional polarization theory has a pessimistic view on development and explains why there is no significant improvement of regional economic development among EU regional and why this trend of divergence is likely to persist.

Myrdal (1957) holistic approach includes a range of economic and non-economic indicators to explain development. Divergence between poor and rich regions and imperfect markets are the implication of this polarization theory. Myrdal's concept is seen as critique of mainstream economic theory applied to underdeveloped regions. As a political economist an institutional approach and broad definition of development and economic growth was implied in his analysis. Regional inequality is an outcome of the economic market system and not something, market forces would prevent.

The principle of circular cumulative causation assumes increasing returns through specialization and economics of scale. Hence, small economic advantages in certain regions expand. Because of interaction between economic and non-economic (e.g. sociological influences) variables, the notion of cumulative causation leads to a movement away from an equilibrium position. In relations between regions, advantages of growth poles can become cumulative, while less developed regions may experience impoverishment. Impacts on regional economic development are, on the one hand so-called spread effects, which reduced regional inequality, and on the other hand, backwash effects, which add to the regional divergence. Both effects alter over time, not only with the level of development, but also with the pace of development. Time is a crucial element of the concept of cumulative causation as history of certain regional variables determines future expectations of how these variables will develop. The dynamics of Myrdal's analysis and its implications for policy distinguish his approach from the rationale of general equilibrium. The divergent of economic growth as well as the unequal distribution of political power and property interferes with the notion of equity and efficiency. Myrdal concludes that direct planning of institutions and governmental interventions are needed to overcome economic obstacles. Origin of reforms is the institutional framework in order to reduce the tension between reality of economic disparities and economic objectives. Negative effects on regional development should be neutralized by a transfer system and a system of redistribution since public expenditures in poorer regions are above their tax revenues and vice versa in richer regions.

During all stages of the integration in Europe, for instance when trade barriers were reduced by opening up national markets, there was neither empirical evidence that in the long-run income convergence across member states and regions would be realized. The expected increase in competition through the EMU will also demand for adjustments in poorer regions if market forces are not expected to reduce disparities and endowment of poor and rich European regions continue to vary widely. In particular, the theoretical framework of Myrdal's approach calls for all governmental activities to influence long-term growth and to compensate for regional differences. The EU regional policy and its public interventions is such an attempt to create economic development by exogenous public interventions.

3.2. Theory of federalism and the European experience

The EU is using the instrument of regional policy and its Structural Funds to influence and equalize regional development. Since different levels of jurisdiction, e.g. sub-national regions, member-states and the EU-level, are involved in activities of the Structural Funds, the economic theory of federalism is offering an analysis evaluating the extend to which the EU multi tiers transfer system is able to achieve regional development.

A federal structure is flexible and adaptable to incorporate economic and non-economic changes of the integration process. (Fiscal) federalism offers a theoretical framework to analyse centralization and decentralization of public functions and public finance responsibilities. In addition, fiscal federalism theory can help to create and operate a system of multi-level government and redistributive public finances at local levels of institutions. It offers arguments to evaluate costs and benefits of decentralization and regional development.

There is no unified scholarly agreement on how the political structure of the EU is defined since nation states and Union coexist. Aspects of federalism have often been applied to categorize the EU entity. The EU is considered a multilevel system in which different institutions from various levels are involved in regional interventions. Within this federal notion, regions are territorial entities defined as jurisdictions below the level of national member states. The EU represents the upper level. The political power of EU regions is restricted e.g. by their non-uniform interests and by the strong position of member states in the union. The principle of subsidiarity restrains areas of responsibility of the upper levels, especially of the EU level. Policy issues should be dealt with at the governmental level best suited to do so.

Centralized national budget decisions strengthen a central government tier and extend the power of the member state level. Responsibilities of upper and lower governmental tiers are not precisely defined and often funding of public functions are not secured. At a lower level, jurisdictions overlap leading to political conflicts and economic inefficiency. Another notion of fiscal federalism is a general predominance of the national level through its control over all major financial resources. Public goods are produced collectively and should only be provided if they are not supplied privately. Consumers not paying for public goods and services cannot be excluded and consumption is not rival. The governmental level on which the public goods will be supplied is a matter of division of functional responsibilities among jurisdictions. A good should be provided on a lower governmental level if no externalities will be internalised in adding another party to the political unit. From the perspective of the national public good, there are gains from internalising the externalities and minimal costs in having everybody consuming the same good. Taking a number of specific considerations into account public goods can well be provided on a lower tier. Tiebout's model (1956) 'voting by feet' argues that jurisdictions will provide those public goods which correspond to preferences of their rational consumers since otherwise people would move to another community where their preferences are better matched. Musgrave's (e.g. 1965; 1989) theory of public finance includes the spatial location of fiscal functions and emphasizes that only the allocation function (provision of public goods and services) can be provided by decentralized tiers. The central governmental tier should perform the distribution of income and wealth (distribution function) and stabilization functions (maintaining high employment, price stability and economic growth).

These theoretical findings indicate in the European context that regional institutions should allocate local goods and services and a centralized European institution should be under obligation to support and finance economic growth (in the regions) and distribute income and wealth for the prosperity of the union.

There is no unambiguous solution to whether or not decentralization or centralization is more suitable as an organizational structure. The following summarizes the criticism of the economic theory of federalism.

Assumptions about the rational behaviour of economic agents do not correspond with the reality of capitalistic markets. The limitations of the market mechanism call for public measures to improve the performance of the economic system. The market mechanism by itself cannot perform all economic functions adequately.

The behaviour of economic agents cannot be measured only by efficiency objectives. Imbalances of (political) power and the democratic participation of people have to be considered as well.

The idea of a federal system in Europe has been discussed widely throughout the years. A first theoretical attempt to analyse the role of income transfers was provided in the MacDougall report (1977). A system of public finance on community level was examined under the condition that Europe would have a common currency and a single market. The report recognized that regional fiscal transfers are substantial in unitary as well as in federal economies. It also predicted the importance of fiscal transfers in the future of an integrated Europe. As a result, of empirical and institutional evidence of the nine member states at that time the group of experts recommended transfers for five to seven per cent of community GDP to reduce disparities in per capita income by forty per cent. In addition, it was suggested to move some public function, which would be suitable due to spill over effects and economic of scale to the EU level. The proposals of the MacDougall report have to be seen as outcome affected by Keynesian and compensatory policy of the seventies.

The discussion about fiscal federalism and its implications for the EU arose again in the early nineties when public interests focus on the transition to full EMU. The report "The Economics of Community Public Finance" (European Economy 1993) examines minimum requirements necessary for the economic and monetary union and in terms of budgetary consequences for the EU and its member states. Advantages were seen in decentralization depending on sharing of power and cooperation among all participating governmental tiers. Fiscal policy will be largely decentralized, as the Community budget remains small. Only an increase to 1.75 up to 2.05 per cent of Community GDP is estimated although interregional solidarity and transfers from the richer regions of the union to poorer ones are stressed. The degree of redistribution is rather a matter of political choice than of economic obligations. The report did not deal with some major functions of public finance, such as community-wide stabilization, defence as well as social policy or support for Eastern European countries if the Community expands.

The present financing system of the EU Structural Funds has been found not appropriate to resolve regional disparities. Instead, not a permanent and substantial interregional mechanism is recommended but a policy instrument for transferring resources when certain regions encounter economic shocks. In consideration for the political position of the member states and the tight financial situation of the EU's budget, the proposed fiscal federal functions hardly included a regional tier or an autonomous regional dimension. One of the major political concerns was the strengthening of the EU-level and unwarranted centralization tendencies.

EU regional policy should be accomplished with division of authority and with various governmental tiers in accordance with public functions. A feasible solution could include the allocation of resources at the regional level with financial responsibility and transfers by the EU level.

3.3. Model of Euro-Federalism

The disparities among European regions are still very critical. The system of Structural Funds (established in the nineties and valid still today) has not been very successful in resolving economic development problems of the EU regions. The concept of regional policy and its Structural Funds are not a holistic strategy and do not have sufficient financial endowment. Myrdal's polarization theory identifies public activities as initiation of positive spread effects.

The existing system of transfers from the EU level to the European regions has to be studied in a broader institutional framework. An increase of financial support by itself - which above all is still needed - and secondary reforms of present system of Structural Funds will not bring the desired results of EU wide convergence. Fiscal federalism is offering arguments for centralization and decentralization of certain public functions, some of them could be adaptable into a (transfer) mechanism for the EU regional policy. Theory and qualitative evidence are not showing one single resolution indeed transformation of the European integration process toward a more federal structure and EU public finance issues have to be taken into consideration.

In a well-run fiscal federal system, relations among various jurisdictions have to be transparent. Functions associated with funding for each level must clearly be identified. Distinctions of authority between various levels of jurisdiction and institutions involved with EU regional policy should be executed.

A European transfer mechanism should be flexible enough to consider economic and political differences of all EU regions and to adopt future changes of the integration movement.

European institutions in charge of regional affairs should be organized within a non-hierarchical structure where they can be treated equal partners. The jurisdiction of individual regions should be given the regional autonomy and responsibility over provision of public goods and services since regional institution know best the local situation.

Close cooperation among regions and upward to the EU is essential. The EU level is to finance transfers to the regions for their economic development.

Political influence and control by the member state regarding questions about EU regional policy should become secondary. Their political predominance is maintained in other EU institution, e.g. European parliament.

The political concept of the European integration process clearly favours and is influenced by neo-classical ideas. The economic aim to generate growth and employment throughout the Union is pursued by increasing competitiveness through reducing trade barriers and market rigidities. Free movement of goods, services, persons and capital are required in a market of perfect competition for reallocation of resources to accumulate efficiency gains. The European Single Market Project condemned public interventions to support the European integration process. Only by altering this approach, regions in charge of regional economic development might be able to follow a successful strategy and to attain sustainable regional development and growth.

4. Recent EU regional policy and regional Australia

EU regional policy has changed over the years and, with widening, the union towards the East and further changes are certain. After 2006 the Structural Funds, the major element of EU regional policy today, may well become obsolete. At the end of 2002, all members of the EU agreed on the enlargement of the Union and in 2004 on ten new members with eight of them Eastern European and former communist countries enter the Union. At the conferences on accession to the European Union in Copenhagen on 13 December 2002 the conclusion of the Accession negotiations with the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland Slovenia and Slovakia was drawn up (European Union 2002). This widening of the integration has major implications on important pillars – such as the economic development of European regions - of the European Union and its previous endeavour to deepen integration among its members. The EU acknowledges " … a major fall in average level of GDP per head as the Union enlarges to 25 or 27 Member States and a widening of regional and territorial disparities…" (Commission of the European Communities 2002, p. 2) With as rise of disparities across members and regions and a fall of GDP per head in a Europe of twenty-five by 13 percent (Commission of the European Communities 2002, p. 2), regional economic development becomes more and more important within the neoclassical framework of the Single Market and Monetary Union. The next funding period for the Structural Funds or its successor begins in 2007. Notwithstanding, the debate on the future of the EU cohesion policies and its structural funds has started. Certain is only that there will be major changes to the present structural and cohesion funds as well as to the allocations requirements of funds, some of which are already mentioned in the accession negotiations (European Union 2002, p. 6). The Commission and its “First progress report on economic and social cohesion” (Commission of the European Communities 2002) kicked off the debate about the new shape of the Structural Funds in May 2002 as well as its Cohesion forum on an open website (www.europa.eu.int/comm/regional_policy/debate/forum_de.htm). A third report was published in 2003 and is expected to be adopted in 2004. With this report, the Commission tries to produce a concrete proposal to present to the European Parliament and the Council. It will be interested to follow the political debate and bargaining process of who is getting what and whether or not economic equity and efficiency criteria will play in role in determine the regional outcomes. For example, the German authorities are discussing as a first option a continuation of the Objective-1 program and in addition some type of regional development program for regions generally lacking behind or – as a second option - a program ‘a la carte’, where only the most disadvantaged regions are eligible to apply for EU funding to support local projects leading to private investments. However, it is very questionable whether the objectives of EU structural policy and maintaining a coherent European target level in economic growth development is still visible as spatial areas of the EU are more and more very diverse.

If we want to look at likely alternatives and ask, what kind of regional policy Europe will have after 2006, then studying existing mature multi-level governments is one option. Analysing the Australia's federal system provides the opportunity to search for possible future development in EU regional economic development at both lower tiers – regions - as well as the upper, EU, level.

Another reason to look at multi-level systems is that part of fiscal federalism - monetary transfers to the regional level without constraints - might be a future alternative for traditional EU regional policy with its tight bureaucratic regime and national level of control. A system of fiscal federalism would give individual regions the opportunity to have different programs and schemes in order to enhance economic development in light of their own particular regional needs. It requires close relationships amongst the regions to obtain the requirements of best practice. Monetary transfers from the EU level to the regions, without the EU-wide universal policy scheme designed by the national member states, may better recognize regional differentiations and acknowledge the heterogeneous nature of the Union.

Emerging from the theory used and the research on EU regional policy, it becomes apparent that experience of the mature federal systems are valuable in regard to present and future ambitions in EU to amend regional policy in particular in respect of the widening towards the East.

4.1. Regional Australia

Economic development projects in regional Australia need also to address not only GDP or population growth figures, but a complete set of economic and non-economic, social and culture indicators have to be taken into account to capture sustainable growth. A definition of development has to be broad and interdisciplinary. Population growth and per capita income might not be as relevant as some regional shires regard them to be; other socio-economic indicators have to be careful considered as they might have positive and sustainable impacts of future growth pattern.

Local shires still focus on “rates” and “rubbish”; rates as their income source and rubbish as one of their main public service. However, in a federal attempt to enhance local governments by widening their meaning planning and strategy implementation becomes part of local agendas. If local governments can be strategic (Scott 2004) then the changing requirements of local governments in Australia will need a holistic approach using a range of economic indicators to capture the changes and developments strategies in growth pattern within the federal system. This implies questions about development in global economic public and private spheres.

Fiscal transfer from an upper tie to the regional level should stimulate economic development in less-favoured area and support private investments with public supplements. This is certainly in accordance to the theory above, recognizing that local ties know best what kind of public goods are needed for their communities. A system of fiscal federalism – or multi-level system such as the Australian mature federal system – gives individual regions the opportunity to have different programs and schemes in place in order to enhance economic development in light of their own particular regional needs. It requires close relationships among the regions to obtain the requirements of best practice and innovation. Federal fiscal arrangements have to bring together equity and efficiency consideration at federal, state and local levels. However, in common with all multi-level system, the Australian federation is not free of fiscal imbalances (Dollery, B.E. and Worthington, A. 1996, p. 81). Fiscal divergence occurs mainly as vertical or horizontal imbalances. Vertical fiscal imbalances refer to the tension between the federal government and its overwhelming power to raise revenue with its lower tiers, which do not sufficient capacities to raise revenue to finance what they consider all necessary local public goods and services. Expenditure obligations and revenue raising position diverge. Horizontal fiscal imbalances occur when regions at the some level – states or shires – face a discrepancy between financing their provision of public goods and service and their local revenue sources.

To overcome the problems posed by fiscal imbalances many federal countries have either tax-sharing or fiscal equalisations schemes or a combination of both in place. Australia, as it has been argued, "has developed the most comprehensive, effective and equitable system of fiscal equalisation in the world" (Mathews 1994, p. 16) applies a horizontal fiscal equalisation scheme carried out by the independent Commonwealth Grants Commission and state-local grants commissions by means of unconditional intergovernmental grants to guarantee equal standards of living across Australia. Nevertheless, the Australian Commonwealth is raising most of the country's revenue and the state and local governments are the tiers spending most of the revenue.

Therefore, and through the various revenue-sharing arrangements the federal government exercises its external powers to influence local government's decisions on public spending (Dollery, B.E., Stewart, and Worthington, A. 2000, p. 17). Local governments have very little choice but to turn to the upper level, as their tax base is too narrow to economically efficient expand local revenues. Another issue about intergovernmental grants is that there are no incentives for local councils to be as economically and efficient as possible. Horizontal equalisation considers economic indicators instead of performance or innovation factors. Council will not be rewarded for efficient use of public funds nor will less efficient councils be punished.

Nevertheless, political acceptance and support from the community as well as community participation will increase because of an expansion in economic activities and growth, for example within a regional economic development scheme. In addition, without the balance between tax revenue and expenditure in all tiers, the Australian fiscal federalism does not meet the efficiency criteria of economic theory, however creating additional income and growth on a local level with help of an economic development scheme might reduce the problem of economic inefficiency in the fiscal federal system, increase the local revenue base and decrease the dependency of intergovernmental grants.

4.2. Pittsworth Development Partnership

Some of the theoretical outcomes of the research were applied in the Pittsworth Development Partnership model. In the Pittsworth's economic development project a focus was set on local knowledge and endowment to attract private investments and leadership to create businesses opportunities. Communication and networking between the public and private roles are vital for the Pittsworth Development Partnership (Behrens, P; Cockfield, G; Zammit, C & McMahon, D 2004).

- Development will occur by using endogenous (regional) economic and non-economic factors.
- The institutional framework of Australian fiscal federalism is less optimal and requires an innovative management with budget constraints.
- Private investment, leadership to be established through networking.

Pittsworth Shire is located on the Darling Downs about 200 km West of Brisbane or 40 km West of Toowoomba. Pittsworth displays a rather positive economic framework for academic research looking at its economic profile (The Southern Inland Queensland Economic Prospectus. A Region on the Move 2003) and it additionally reveals an almost complete set of local and private infrastructure, such as schooling, health services, retail possibilities etc. Pittsworth's proximity to Toowoomba and its economic well-being differentiates the town and shire from other rural communities located further West and further away from the prosperous and populated Eastern coastal line. With positive population growth over the last years, very low unemployment rates and a respectable mean taxable income, Pittsworth has a strong potential to make the shift from an agriculture dependable shire to a more manufacturing services oriented rural economy.

The first stage of the research project examined the current economic situation of the shire and town of Pittsworth in order to identify future business opportunities, which rely on existing local endeavours. Nineteen local projects were documented. These projects embody local resources and knowledge; which are essential components for attracting quality investments from within the region as well as from outside the area. The economic development projects are linked to four specific key strategies; the strategies are bundled to one holistic economic development approach for the shire and town of Pittsworth.

Secondly, the project will base its practical work in the theoretical framework to provide a strong foundation for evaluating development opportunities that might best suit Pittsworth and the Darling Downs more broadly.

Thirdly, the project will address how other rural communities can benefit from these findings and create a template incorporating practical experiences and theoretical foundation applicable for regional communities in Australia.

The economic development approach of the project uses a holistic scheme, in order to promote development in Pittsworth as whole rather than individual strategies or projects. Each project is linked to other economic activities or projects within its own strategy, or to other strategies, creating multiple effects in growth and development. Therefore, a concentration of activities and a focus towards activities with a high success rate are anticipated.

In addition, economic development always needs an active community and strong partnerships with a wide range of government institutions and stakeholders at a conceptual, but more so at the operational level of the project.

Beer (1996) stated in a quantitative paper that local economic development agencies extend their range of activities - despite the fact that they have little staff - and that they engage in expensive, high risk development strategies, even though their CEO is aware of the low success rates. Beer (1996) argues 'that for most local economic development practitioners the most effective strategies are those which promote growth in their region, assist with the effective operation of their agency, ensure community and political support for their activities and improve their financial situation.' Consequently, for economic development activities to be feasible and successful local government agencies need to focus on:

- A concentration of activities and
- On activities with high success rate

In addition, economic development is only possible in close cooperation with the business community. The input, collaboration and financial participation of businesses are essential for a successful approach in economic development. Public private partnerships are certainly one option. The communication, decision-making and moderation processes have to be put in place and arrangements should be adopted that suite the local situation. In addition, co-operation with other groups, such as neighbouring shires, chambers of commerce, universities and so on should be strived for.

Another important element is to continuously evaluate the established projects during their life span and to evaluate the strategies. Forms of evaluation should be carried out during all phases and at all stages of the economic development process and quantitative as well as qualitative indicators to measure the progress should be used. If possible, these indicators should be determined and agreed upon before a project starts. The success of the project can then be measured against these indicators.

5. Conclusion

There is a need for a more holistic strategy in economic development on a regional level. An applicable economic development strategy will depend on local resources and knowledge. Subsequently, a positive economic outcome could be defined as maintaining existing levels of economic well-being rather then increase economic activities in the neoclassical sense. The findings reflect the view in cumulative causation theory that positive local endowment creates further positive spread effects in the regions if identified and communicated. Proximity to existing growth clusters or innovation approaches support the movement. Funding of projects is important, however small projects with high local identification might be more successful than high profile ventures forced on the area.

The Pittsworth Development Partnership was successful in the sense that three local, business opportunities were identified; however, the private investment decisions are still outstanding. The strategy approach is an holistic method of synthesising and organising local opportunities as well as reflecting local resources and knowledge, which are the essential components for attracting qualify investments form within the region as well as from outside the area.

Besides, what type of economic development strategies can local governments develop in light of an increase in public obligations and a decrease in funding? In a system of fiscal federalism, opportunities for regional and federal jurisdictions in term of redefining future local economic development strategies are created.

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ISSN 1324-5910

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